AUDIT REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS OF THE GOVERNMENT OF LESOTHO FOR THE YEAR ENDED 31 MARCH 2024

CITIZEN'S SIMPLIFIED ENGLISH VERSION

OFFICE OF THE AUDITOR-GENERAL LESOTHO

I am pleased to present the citizens' simplified English version of the report on the audit of the Consolidated Financial Statements of the Government of Lesotho (GoL) for the year ended 31 March 2024. The purpose of this report is to capture citizens' attention, serve as a pointer to the main report, highlight major audit concerns, and enhance understanding of operations in relation to public finance[1].

My role as the Auditor-General is not only to draw the attention of Parliament, Government and other decision-makers to matters of concern arising from audits, but also to ensure that audit messages are communicated more effectively to citizens, understood, and perceived as useful.

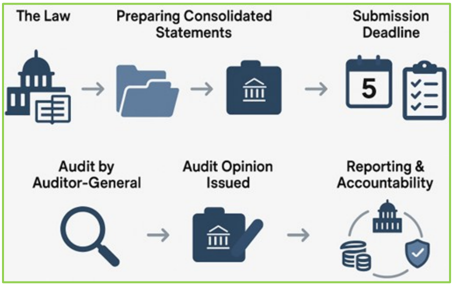
I acknowledge the work of Parliament in its oversight, of the Government in its commitment to public financial management reforms, and of the Office of the Auditor-General's staff, whose professionalism and dedication enabled me to fulfil my constitutional mandate and to contribute to making a difference in the lives of the Basotho.

'MATHABO GAIL MAKENETE (MS.) CA (L)
AUDITOR-GENERAL OF LESOTHO

[1] Although reflecting accurate results of the audit, images in this report are generated using artificial intelligence

MANDATE AND RESPONSIBILITIES OF THE AUDITOR-GENERAL

The Auditor-General is responsible for ensuring public accountability and transparency, as mandated by Section 116(2) of the Constitution of Lesotho, as amended, read with the Audit Act, 2016.



LEGAL ROLE OF THE AUDITOR-GENERAL IN ENSURING PUBLIC MONEY IS PROPERLY MANAGED

The main duty of the Auditor-General is to ensure that Government receipts have been included in the Consolidated Fund and retained by the agency that received them, as well as that expenditures charged to the same Fund are authorized.

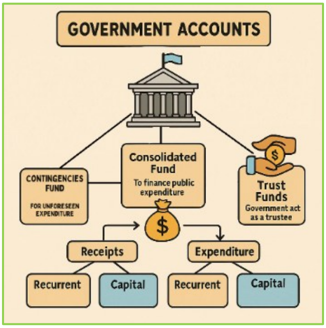
AUDIT PROCESS

Public Financial Management and Accountability Act 2011 states that the Minister of Finance shall prepare the annual financial statements (Consolidated Financial Statements), which are a single report that combines the financial information from the Accountant-General (Treasury) Government's main finance office and all Government ministries.

These Consolidated Financial Statements must be submitted to the Auditor-General within five months after the end of the financial year. Once the Auditor-General has audited, a report will be issued with an opinion on the financial statements, which will be presented to Parliament.

GOVERNMENTACCOUNTS

The structure of the Government accounts from the appropriation by Parliament to the spending units.



OPINION OF THE AUDITOR-GENERAL ON THE CONSOLIDATED FINANCIAL STATEMENTS (COMBINED GOVERNMENT FINANCIALSTATEMENTS)

The Audit report issued an adverse opinion on the Government of Lesotho's Consolidated Financial Statements for the year ended 31st March 2024. This means the financial statements did not show the Government's true financial position on that date.

The reasons for the adverse opinion are as follows: -

a. Cash position and Balances

The Cash balance in the Consolidated Statement of Cash Receipts and Payments and the corresponding Note 15 differed by M3.09 billion.

b. Differences in cash decrease

Note 15 to the CFS and the Consolidated Statement of Cash Receipts and Payments show different amounts for the increase in cash, which is M710 million.

c. Understatement of the Cash Balance

The Consolidated Fund cash balance was understated by M80 million, representing the IEC unused funds not returned to the government purse.

d. Unexplained decrease in the Closing Balance

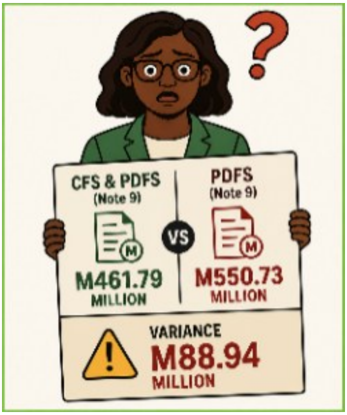
The Treasury Bills balance decreased during the year without explanation.

e. Inconsistent Reporting of the Loan Guarantees Balance

The CFS Loan guarantee balances of M54.91 showed no transaction movement from the opening balance of M48.78 and were inconsistent with the supporting documents.

f. Discrepancies in Public Debt Financial Statements

There is an inconsistency between the Consolidated Financial Statements (CFS) and the Public Debt Financial Statements (PDFS) regarding the reported domestic interest payments in Note 9.



g. Inconsistency in Prior Year balances

There are material discrepancies between the Ministry's Financial Statements (MFS) and the Consolidated Financial Statements (CFS) regarding prior-year balances for pending litigation and payment arrears.

h. Differences in actual expenditure between CFS, MFS, and IFMIS Ledger

Spending reported by ministries did not match the figures in the Government financial system. This makes it difficult to confirm the actual amount spent.

i. Pathways to Sustainable Livelihoods Project: Omission of Activities and Misstatements

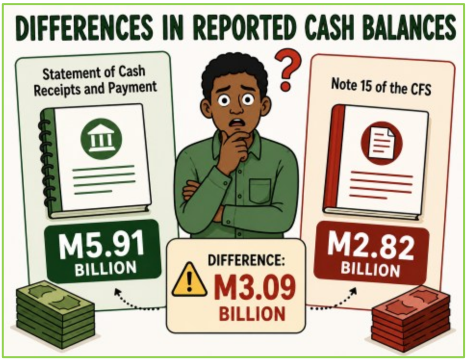
The Ministries' Financial Statements (MFS) and the Consolidated Financial Statements (CFS) did not report certain income and expenditure for the Pathways to Sustainable Livelihoods Project. As a result, the project's activities were not fully reflected in Government financial reports.

1. CASH BALANCES AND BANK ACCOUNTS MANAGEMENT

The audit found issues with how government cash and bank accounts are recorded and monitored, making it difficult to confirm the true amount of money the government has. The main issues identified are explained below:

a) Differences in reported cash balances

i) There was a difference of M3.09 billion between two official Government reports that should show the same cash balance (M5.91 billion and M2.82 billion).



ii) In addition, the increase in cash of M710 million for the year could not be explained or reconciled with the records. This raises concerns about the accuracy of government financial information.

b) Accounts not included in records

Some important loan and project accounts that appeared in previous records were omitted from the current year's records. This means the total number of government accounts reported may be incomplete.

c) Bank accounts not being used for years (Dormant Accounts)

Six (6) Government bank accounts, holding M40.07 million, had not been used for a period ranging from one (1) to seven (7) years. Keeping money in inactive accounts is against Treasury Regulations (2014) and increases the risk of funds being lost or misused.

d) Unresolved differences in foreign mission accounts

There are long-standing problems in reconciling the accounts of some Lesotho foreign missions (embassies and consulates). If these discrepancies are not corrected, the funds involved could be permanently lost and financial reports may remain inaccurate.

These ongoing discrepancies and inactive accounts reduce confidence in the accuracy of government cash records and increase the risk of errors or fraud.

These ongoing discrepancies and the presence of unmonitored dormant accounts impact the accuracy and integrity of the government's cash position and increase the risk of errors or possible fraud.

e) The Independent Electoral Commission (IEC) transferred M80 million of unspent funds to another account at year-end without the Accountant-General's knowledge. This made the Government's reported cash balance appear lower than it actually was.

f) The Accountant-General's ongoing reconciliations identified Payments totalling M13.1 million at the Central Bank, but these payments were not recorded in the government records and had no supporting documents.

2. CASH RECEIPTS

2.1 Inaccurate Disclosure of State-Owned Entities and Declining Dividend Returns

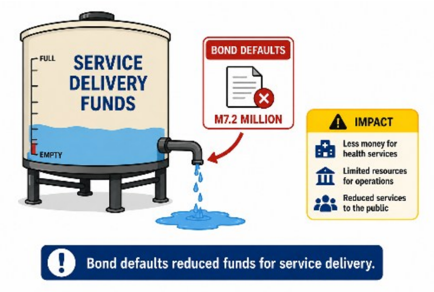
The disclosure of the State-Owned Enterprises did not include the Central Bank of Lesotho, despite its having paid dividends, and LNDC. This reduces transparency and reliability.

2.2 Dividend income to the Government decreased by 6% compared with the previous year. Some State-Owned Entities have not paid dividends for several years, reducing funds available for public services.

3. NON-CASH ASSETS

High Value of Bonding Agreement Defaulters

The Ministry of Public Service, Labour and Employment had M7.4 million in arrears, mainly due to employee bonding defaults (M7.2 million), which reduced funds for service delivery and risked non-compliance.

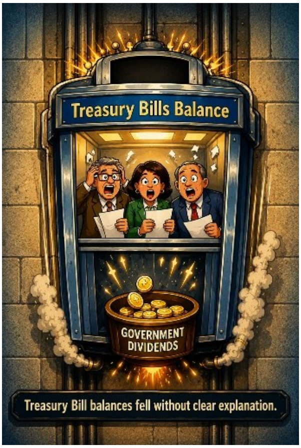


4. LIABILITIES

These are the general findings under liabilities and debt management: -

4.1 Unexplained decrease in the closing balance of Treasury Bills

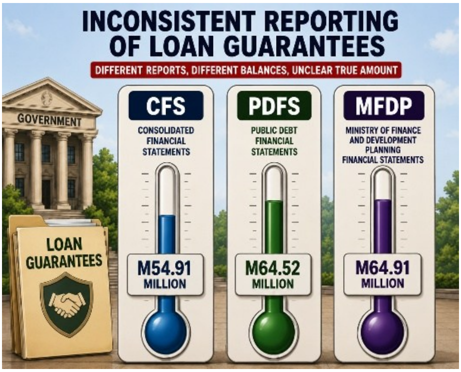
The balance of debts the Government as related to Treasury Bills decreased during the year, but there were no records of new issues or repayments. This makes it unclear whether the reported amount accurately reflects what the Government owes.



4.2 Inconsistent Reporting of Loan Guarantees

Different balances for loan guarantees were reported in the Consolidated Financial Statements (M54.91 million), the Public Debt Financial Statements (M64.52 million), and the Ministry of Finance and Development Planning’s financial statements (M64.91 million).

These differences make it unclear what the correct amount of outstanding loan guarantees is.



4.3 Public Debt amount differences

The review revealed a material difference of M88.94 million between the Consolidated Financial Statements (CFS) and the Public Debt Financial Statements (PDFS) in the reported public debt amounts as follows: -

- CFS Amount (Note 9): M461.79 million
- PDFS Amount (Note 9): M550.73 million

This makes it impossible to verify the Government's true debt position.

4.4 Inconsistent Pending Litigation balances

The prior-year audited balances for ongoing court cases do not agree with the Ministry's financial statements (MFS) and the Consolidated Financial Statements (CFS), making it unclear how much the Government could be required to pay.

4.5 Payment Arrears

a. The Government failed to pay overdue debts of M2.81 billion to individuals, suppliers, lenders, and contractors on time. This may affect businesses and lead to job losses.

b. The Consolidated Financial Statements (CFS) and the Ministry's financial statements reported different prior-year arrears, resulting in a difference of M7.17 million. This may lead to incorrect payments of outstanding amounts and reduce funds available for essential services.

5. LOSSES (MOTOR VEHICLE ACCIDENTS)

Unsubmitted Vehicle Accident reports

Six spending units reported vehicle accident losses, with an estimated cost of M1.84 million, which were not submitted to my Office. This made it difficult to confirm the accuracy of the reported losses.

6. ADMINISTRATION OF PUBLIC FUNDS

These were the general findings regarding the administration of public funds: -

6.1 Consolidated Fund Standing Services

Centralised Items and the Contingencies Fund, totalling M732 million, were incorrectly recorded under Standing Services rather than Appropriated Funds. This led to an overstatement of the appropriation.

6.2 Services/Appropriated Expenditure

6.2.1 Differences Between Appropriation Act and Book of Estimates

A difference of M2.61 billion was noted between the Appropriation Act and the Book of Estimates. This may lead to spending funds that were not approved.

6.3 Administration Account/Contingencies Fund

Advances totalling M152.43 million were issued to six spending units for non-urgent, foreseen expenses, while a further M404.78 million was drawn from the Contingencies Fund, which had not been approved by Parliament and was not properly reported in the CFS, thereby weakening accountability over the use of public funds.

6.4 Centralised Items Vote

6.4.1 Administration and legality of the Centralised Items Vote

There remains no legislation governing the administration of Head 330, Centralised Items. Despite reallocations of M197.53 million, no expenditure was reported under this Head in the CFS, leaving it unclear who is responsible for managing these funds.

6.4.2 Appropriated funds used for items not budgeted for under Centralised Items

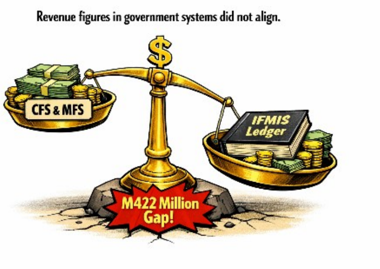
M197.53 million from the Centralised Items Vote was redirected to spending units rather than to the intended entities.

7. ACCOUNTABILITY OF RECURRENT REVENUE

These were the general findings on accountability and recurrent revenue by Chief Accounting Officers: -

7.1 Differences Between the Amounts In the CFS, MFS, and the IFMIS Ledger

The CFS and MFS reported revenue of M422 million higher than the IFMIS Ledger, with discrepancies noted for the Ministries of Agriculture and Information, Communications, Technology, and Innovation, raising concerns about the accuracy of the reported revenue.



7.2 Loss of Revenue

The following concerns were identified under the Ministry of Local Government, Chieftainship, Home Affairs, and Police:

Residence permit applicants were charged a service fee of M2,800 instead of the gazetted Government fee of M1,500, but the Government failed to collect the required application fee, resulting in a revenue loss of about M11.78 million over seven years, while the service provider continued operating after the contract expired in 2023 without evidence of renewal.

8. ACCOUNTABILITY OF RECURRENT EXPENDITURE

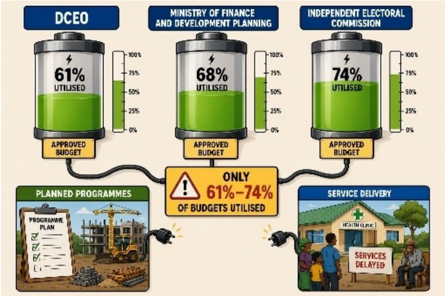
8.1 RECURRENT EXPENDITURE

8.1.1 Unapproved Supplementary Appropriation Bill

The Supplementary Appropriation Bill (2023/2024) had not been approved by Parliament at the time of the audit, thereby weakening financial control and limiting Parliament's oversight of public funds.

8.1.2 Irregularities in the budget and Appropriated Funds

The DCEO, Ministry of Finance and Development Planning, and the Independent Electoral Commission utilised only 61% to 74% of their budgets. This may delay planned programmes and affect service delivery.



8.1.3 Utilisation of Released Funds

Funds allocated to the Ministry of Local Government, Chieftainship, Home Affairs, Police, and the Judiciary were M47.88 million higher than their revised budgets, whereas Ministries of Education, Finance and Trade did not receive or utilise all their approved funds. This indicates weak budget planning and may affect service delivery.

8.2 DEVELOPMENT EXPENDITURE

8.2.1 Variances between Consolidated Financial Statements (CFS) and IFMIS Ledger balances

The revised donor loan budget of M67.93 million reported by the Ministry of Gender differed from the M70.76 million in the CFS by M2.83 million.

8.2.2 Differences in actual expenditure between the Audited Financial Statements of the Pathways to Sustainable Livelihood Project (the project) and the MFS

a) The MFS and CFS for 2022/23 reported no project income or expenditure, even though the project's audited financial statements showed activity.

b) In 2023/24, project income of M191.35 million reported in the audited project statements did not match the M67.93 million reported in the MFS, raising concerns about the accuracy of project financial reporting.

8.2.3 Budget Execution

Ten ministries used less than 75% of their project funds, while three spending units spent M315.98 million without an approved budget. This indicates weaknesses in project planning and control and may affect the achievement of the intended project objectives.

9. ASSET MANAGEMENT

9.1 Improper maintenance of Fixed Asset Registers (FAR)

Four spending units bought assets worth M96.03 million, but only M2.07 million was recorded in their asset registers. Some registers also lacked acquisition dates, complicating asset tracking.

9.2 Absence of Fixed Asset Register

Six spending units bought assets worth M790.47 million, but did not provide asset registers for audit. This increases the risk of asset loss and errors in financial reporting.

10. MINISTERIAL AUDIT

10.1 LESOTHO-DURBAN CONSULATE

The audit identified the following concern regarding Lesotho Durban Consulate - Vehicle Management: -

Improper maintenance of the Fixed Asset Register (FAR)

The initial cost and acquisition dates of two vehicles, as well as the date of a burnt vehicle, were not recorded in the asset register, thereby undermining the accuracy of the asset records.

10.2 LESOTHO – JOHANNESBURG CONSULATE

The audit identified the following concerns regarding the Lesotho Johannesburg Consulate:

10.2.1 Suspected Fraudulent Rental of Government Units at Killarney

A Diplomat irregularly rented out Government residential units, retained M174,000 in rental income that was not recorded in Government accounts, and no lease agreements were available for audit verification.

10.2.2 Rent collection from Indent House and the flats

Lease agreements for Indent House were available only from October 2022. Approved rent rates for the flats were not provided, and rental deposits were M603,520 lower than expected. This suggests a possible loss of rental income.

10.2.3 Procurement - Contract Management

The audit identified concerns about contractor engagement: one contractor was paid M1.86 million, including periods when no valid contract was in place, while another received M293,089 without a service contract.

10.2.4 Non-Compliance with Public Service Regulations on Staff Appointments and Contract Management

Some staff were assigned positions outside the approved structure, and no staff list was provided for review, increasing the risk of positions being assigned without approval and of incorrect salary payments.

10.3 PRETORIA HIGH COMMISSION

The audit identified the following concern regarding the Pretoria High Commission: -

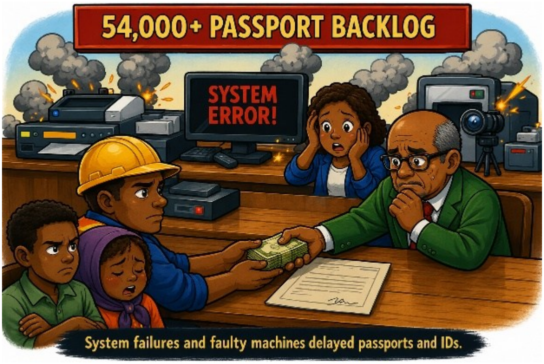
Unauthorised Investment of Public Funds

M1 million was transferred to an investment account without the required approvals, and interest of M7,063 on the investment was not paid into the Consolidated Fund, thereby exposing public funds to possible misuse and loss.

11. PERFORMANCE AUDIT

11.1 System Failures and Document Processing Delays

Poor coordination between Government IT staff and the service provider, outdated systems, and maintenance delays caused frequent system failures and security risks. Along with shortages of materials and faulty machines, this led to delays in issuing ID cards and passports, including a backlog of over 54,000 passports.



11.2 Deployment of Temporary NICR Staff

Temporary NICR staff were recruited outside normal procedures, received no training, and the Department relied heavily on them rather than on the small number of permanent staff.

CONCLUSION

The audit findings, similar to those of previous years, continue to highlight significant deficiencies in various aspects of financial management and budget oversight by CAOs, within the MDAs.

It is thus imperative for the recommendations by the Auditors to be implemented and regularly monitored through follow-up reviews.